

# SHAREHOLDER RIGHTS DIRECTIVE II ON SCHEDULE - ARE YOU READY?

FOR INSTITUTIONAL INVESTORS

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**BNP PARIBAS**

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# AGENDA

01 | INTRODUCTION

02 | SRDII OVERVIEW

03 | SRDII CLIENTS' IMPACTS

04 | SRDII REPORTING  
REQUIREMENTS



01

INTRODUCTION



# INTRODUCTION



- The Shareholder Rights Directive, Directive (EU) 2017/828, known as SRDII, amends the existing EU Shareholder Rights Directive (2007/36/EC) to further encourage long-term shareholder engagement and increase transparency.
- To reduce the risk of fragmentation amongst Member States, the European Commission (EC) issued an implementing regulation, IR (EU) 2018/1212, requiring uniform implementation within the EU. Nevertheless, there is still a risk of inconsistency, between the national transposition of the directive (level 1 text) in each Member State and the implementing regulation (level 2 text), which needs to be closely monitored.
- The objective of this webinar is to provide a comprehensive overview of SRDII and the implementing regulation.

## USEFUL LINKS

*SRDII handbook*

- <https://securities.bnpparibas.com/insights/shareholder-rights-directive.html>





# TERESA AFONSO

Product Manager, Global Product Asset Servicing & Regulatory Solutions



# 02

## SRDII OVERVIEW



## SHAREHOLDERS RIGHTS DIRECTIVE II

- The Shareholders Rights Directive (SDRII) refers to Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017, amending Directive 2007/36/EC. The new directive establishes specific requirements to contribute to the long-term sustainability of European companies, enhance the efficiency of the chain of intermediaries and encourage long-term shareholder engagement.

### ENGAGEMENT



- Strengthen shareholders' rights
- Facilitate the process of cross-border voting

### TRANSPARENCY



- Encourage the long-term engagement of institutional investors and asset managers
- Increase transparency of proxy advisors policies

### OVERSIGHT



- Give shareholders a "say on pay"
- Bring disclosure to related party transactions

### FACILITATION OF THE INTERACTION BETWEEN COMPANIES AND THEIR SHAREHOLDERS

- Right for companies to identify shareholders
- Transmission of information
- Facilitating the ability of shareholders to exercise their rights
- Transparency, proportionality of costs and non-discrimination

### ENHANCED TRANSPARENCY OF INSTITUTIONAL INVESTORS, ASSET MANAGERS AND PROXY ADVISORS

- Disclosure of institutional investors' and asset managers' engagement policies
- Disclosure of institutional investors' investment strategy and their arrangements with asset managers
- Transparency requirements for asset managers and proxy advisors

### APPROVAL OF REMUNERATION AND RELATED PARTY TRANSACTIONS

- Remuneration policy
- Remuneration report
- Related party transactions





# SCOPE AND TIMELINE

## WHICH COMPANIES?

- SRDII applies to companies which have both their registered office in a EEA Member State and whose shares are admitted to trading on a regulated market situated or operating within a Member State.
- Companies incorporated outside a Member State with shares listed on a EU regulated market or incorporated in a Member State with shares listed on a non-regulated EU market are not in scope of SRDII.

Although SRDII refers to equity shares in general, the EC has allowed Member States to enlarge the scope of which type of securities are impacted by SRDII obligations. Until all transpositions are complete we will not have full visibility on this matter.

## WHICH SHAREHOLDERS?

- SRDII applies to all shareholders, wherever located, not only to those in Europe.

## WHICH REQUIREMENTS?

- SRDII establishes specific requirements in order to encourage long-term shareholder engagement: **identification of shareholders, transmission of information, facilitation of exercise of shareholders' rights, non-discrimination and proportionality of costs, transparency of institutional investors, asset managers and proxy advisors, remuneration of directors and related party transactions.**

As a custodian, the main impact is around identification of shareholders, transmission of information, facilitation of exercise of shareholders' rights, non-discrimination and proportionality of costs.

## WHICH PARTICIPANTS?

- SRDII applies to all intermediaries, institutional investors, asset managers and proxy advisors, wherever located (not only to those in Europe), servicing issuers and shareholders in scope.

### JUNE 2017

Shareholders Rights Directive II enters into force

### 3 SEPTEMBER 2018

Publication of implementing acts (i.e. level 2 technical standards)

### 10 JUNE 2019

Deadline for Member States to bring into force the laws necessary to transpose SRDII

### 3 SEPTEMBER 2020

Deadline for implementation of shareholder identification, transmission of information and voting

2017

2018

2019

2020



# SRDII - DIRECTIVE (EU) 2017/828 – CHAPTER IA



## CHAPTER Ia

For below requirements, the EC adopted implementing acts to prevent divergence in the local application by each Member State. Nevertheless, there is concern regarding the possible inconsistencies between the national transpositions of the directive and the implementing regulation which only includes minimum requirements. The directive also encourages industry participants to further self-regulate according to the needs of the different markets, which may reduce standardisation

SRDII ARTICLE		ISSUER REQUIREMENT	INTERMEDIARY REQUIREMENT	IMPACT ON INTERMEDIARIES	
3a	IDENTIFICATION OF SHAREHOLDERS	<ul style="list-style-type: none"> <li>Right to request shareholder identification</li> </ul>	<ul style="list-style-type: none"> <li>Receive and pass on requests to disclose information on shareholders' identity</li> <li>Transmit shareholders' identification</li> </ul>	HIGH	●
		<ul style="list-style-type: none"> <li>Process shareholders' personal data</li> <li>Store shareholders personal data</li> </ul>	<ul style="list-style-type: none"> <li>Store shareholders' identification</li> <li>Delete information on shareholders not holding positions after 12 months</li> </ul>	HIGH	●
3b	TRANSMISSION OF INFORMATION	<ul style="list-style-type: none"> <li>Issue standardised information to enable exercise of shareholders' rights</li> </ul>	<ul style="list-style-type: none"> <li>Transmit corporate events notifications and instructions "without delay"</li> </ul>	MEDIUM	●
3c	FACILITATION OF THE EXERCISE OF SHAREHOLDER RIGHTS	<ul style="list-style-type: none"> <li>Issue voting confirmations</li> </ul>	<ul style="list-style-type: none"> <li>Enable shareholders to exercise their rights, such as to participate in and vote at meetings</li> </ul>	MEDIUM	●
			<ul style="list-style-type: none"> <li>Transmit voting confirmations:                             <ul style="list-style-type: none"> <li>Confirm reception of votes</li> <li>Confirm recording and counting of votes</li> </ul> </li> </ul>	HIGH	●
3d	NON-DISCRIMINATION, PROPORTIONALITY AND TRANSPARENCY OF COSTS	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Disclose fees</li> <li>Charging fees for services may be prohibited</li> </ul>	HIGH	●



# 03

## SRDII CLIENTS' IMPACT



# SRDII – CLIENTS' IMPACT

## KEY IMPACTS

- We have launched a project plan to ensure our compliance with the directive and the implementing regulation by the live date of 3 September 2020. We are adapting our processes and service offer for corporate actions processing, general meetings and identification of shareholders to comply with the new requirements in the implementing regulation.

### IDENTIFICATION OF SHAREHOLDERS

- We will manage the identification of shareholders in house and we have been adapting our systems and internal processes to comply with SRDII provisions for the identification of shareholders.

#### PROCESS IMPACT

- Identification of shareholders

#### CLIENT IMPACT

- No impact on beneficial owners.
- **We have made a screen available in our internet portal (Neolink) where clients can retrieve all issuer requests we have responded to on their behalf.**

### TRANSMISSION OF INFORMATION

- We have been adapting our systems and internal processes for the management of corporate actions and general meetings to comply with SRDII provisions for the transmission of information.

#### PROCESS IMPACT

- Corporate actions and income
- General meetings

#### CLIENT IMPACT

- For corporate events, both the issuer and our response deadlines will be expressed in Coordinated Universal Time (UTC).
- For general meetings, where we operate in partnership with Broadridge, we have engaged with them to ensure their offer is compliant with SRDII.

### FACILITATION OF SHAREHOLDER RIGHTS

- We have been adapting our systems and internal processes for the management of general meetings to comply with SRDII provisions for the facilitation of shareholder rights.

#### PROCESS IMPACT

- General meetings

#### CLIENT IMPACT

- New requirement to process votes per final beneficial owner so to have accurate vote confirmations.
- **If you have not yet subscribed to our general meetings service and you wish to, please contact your client representative, who will provide all required information.**





# JEAN-FLORENT RICHARD

EMEA Regulatory Watch Practice Leader



# 04

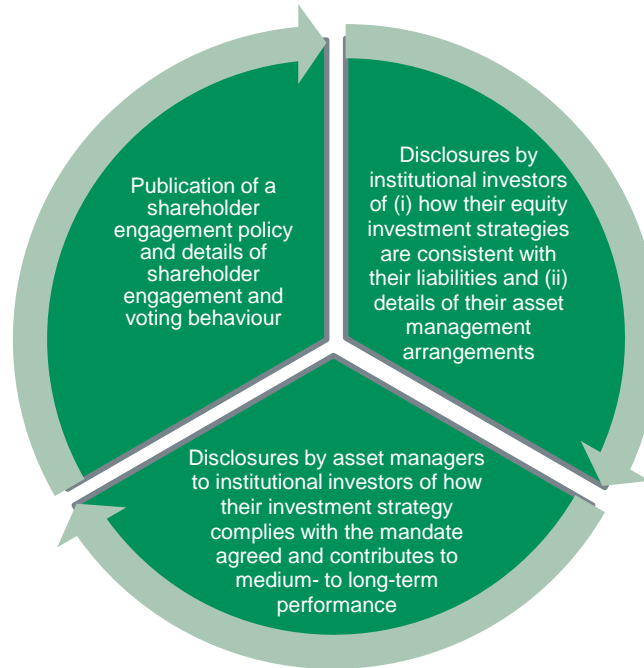
## FOCUS ON SRDII TRANSPARENCY REQUIREMENTS FOR INSTITUTIONAL INVESTORS & ASSET MANAGERS



# NEW TRANSPARENCY REQUIREMENTS

## Key SRDII requirements

SRD II establishes a new regulatory baseline on stewardship and stewardship activities for certain asset managers and institutional investors and creates a new suite of compulsory regulatory obligations at European level



# SHAREHOLDER ENGAGEMENT POLICY

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## Disclosure of engagement policy

- SRD II requires all institutional investors and asset managers to develop and publicly disclose an engagement policy that describes how they integrate shareholder engagement into their investment strategy. This should cover topics such as how the firm monitors and conducts dialogues with investee companies, exercises voting rights, cooperates with other shareholders and manages conflicts of interest

## Annual disclosure of engagement policy implementation

- Institutional investors and asset managers also have to annually disclose how they have implemented their policy, including how they have cast votes in general meetings of investee companies. Firms must give explanations of the most “significant” votes and may exclude “insignificant” votes from this disclosure

SRD II allows firms to choose not to comply with one or more of the above requirements, but then the firm must publicly disclose a clear and reasoned explanation for that decision (i.e. “comply or explain”)





# INSTITUTIONAL INVESTORS' INVESTMENT STRATEGY & ARRANGEMENTS WITH ASSET MANAGERS

## Disclosure of investment strategy

- SRD II requires institutional investors to publicly disclose how their equity investment strategy is consistent with the profile and duration of their liabilities, with a particular focus on long-term liabilities

## Disclosure of detailed information of arrangement with assets managers

- Institutional investors are also required to disclose detailed information where an asset manager invests on their behalf (either on a discretionary client-by-client basis or through a fund) or give a clear and reasoned explanation as to why they have omitted any elements. Required details include:
  - Incentivisation of the asset manager to align with liabilities
  - Incentivisation of the asset manager to make long-term decisions and engage with investee companies
  - How performance evaluation and remuneration of the asset manager is in line with the liabilities of the institutional investor (particularly long-term liabilities)
  - Monitoring or portfolio turnover costs
  - The duration of the arrangement



# TRANSPARENCY OF ASSET MANAGERS

## Annual disclosure of investment strategy implementation

- Asset managers are required to annually disclose to institutional investors how their investment strategy contributes to the medium to long-term performance of the assets of the institutional investor or of the fund

## Required information

- Key material medium to long-term risks associated with the investments
- **Portfolio composition, turnover and turnover costs**
- Use of proxy advisors for the purpose of engagement activities and their policy on securities lending and how it is applied to fulfil its engagement activities if applicable, particularly at the time of the general meeting of the investee companies
- How they make investment decisions based on evaluation of medium to long-term performance of the investee companies, including non- financial performance, and on whether and, if so, which conflicts of interests have arisen in connection with engagement activities and how the asset managers have dealt with them



# Q&A



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